

**CITY OF MONTEZUMA, IOWA  
MUNICIPAL LIGHT AND POWER PLANT**

**INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**June 30, 2010**



## Table of Contents

---

	<u>Page</u>
City Officials	2
Independent Auditor's Report	3-4
Management's Discussion and Analysis (MD&A)	5-7
<u>Basic Financial Statements:</u>	<u>Exhibit</u>
Government-Wide Financial Statements:	
Statement of Activities and Net Assets - Cash Basis	A 9
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes In Cash Balances	B 10
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets	C 11
Notes to Financial Statements	12-16
<u>Required Supplementary Information:</u>	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - Proprietary Funds	18
Notes to Required Supplementary Information - Budgetary Reporting	19
<u>Other Supplementary Information:</u>	<u>Schedule</u>
Schedule of Indebtedness	1 21
Revenue Note Maturities	2 22
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23-24
Schedule of Findings	25-26

**City of Montezuma, Iowa**  
**Municipal Light and Power Plant**  
**City Officials**  
**As of Year Ended June 30, 2010**

---

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before August, 2009)</b>		
Don Hall	Chairman, Light Plant Trustee	August, 2009
Dean Hubbard	Light Plant Trustee	March, 2013
Doug Ver Meer	Light Plant Trustee	November, 2011
Shanel Fahlenkamp	Trustee Secretary	Indefinite
Michael Horn	Attorney	Indefinite
<b>(After August, 2009)</b>		
Don Hall	Chairman, Light Plant Trustee	February, 2015
Dean Hubbard	Light Plant Trustee	March, 2013
Doug Ver Meer	Light Plant Trustee	November, 2011
Shanel Fahlenkamp	Trustee Secretary	Indefinite
Michael Horn	Attorney	Indefinite



## Independent Auditor's Report

To the Board of Trustees  
City of Montezuma Municipal Light and Power Plant  
Montezuma, Iowa

We have audited the accompanying financial statements of the business type activities and each major fund of the City of Montezuma Municipal Light and Power Plant, a component of the City of Montezuma, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the Utility's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Montezuma Municipal Light and Power Plant's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note (1), these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the business type activities and each major fund of the City of Montezuma Municipal Light and Power Plant as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated August 18, 2010, on our consideration of the City of Montezuma Municipal Light and Power Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 5-7 and 17-18 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma Municipal Light and Power Plant's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2009 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were presented in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Van Maanen, Sietstra & Meyer, PC*

Van Maanen, Sietstra & Meyer, PC  
Certified Public Accountants

August 18, 2010

## Management's Discussion and Analysis

---

The City of Montezuma Municipal Light and Power Plant provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### 2010 FINANCIAL HIGHLIGHTS

- Receipts of the Utility increased 30.8%, or approximately \$985,000, from fiscal 2009 to fiscal 2010. This is primarily due to loan proceeds of \$1,000,000 in the current fiscal year..
- Disbursements increased 6.0%, or approximately \$166,000 from fiscal 2009 to fiscal 2010. The net operating costs increased \$287,000.
- The Utility's total cash basis net assets increased 74.0%, or approximately \$1,227,000 from June 30, 2009 to June 30, 2010.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the Utility as a whole and presents an overall view of the Utility's finances.

The Fund Financial Statements tell how proprietary services were financed in the short term as well as what remains for future spending. Fund financial statements report the Utility's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year.

Other Supplementary Information provides detailed information about the schedule of indebtedness and revenue note maturities.

### Basis of Accounting

The Utility maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utility are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

### REPORTING THE CITY'S FINANCIAL ACTIVITIES

#### *Government-wide Financial Statement*

One of the most important questions asked about the Utility's finances is, "Is the Utility as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the Utility's net assets. Over time, increases or decreases in the Utility's net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Activities and Net Assets show business type activities:

- Business type activities include electric service. This activity is financed primarily by user charges.

#### *Fund Financial Statements*

The Utility has only proprietary funds.

Proprietary funds account for the Utility's Enterprise Funds. Enterprise Funds are used to report business type activities. The Utility maintains Enterprise Funds to provide information for the electric system, considered to be a major fund of the Utility.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of financial position. The Utility's cash balance increased from a year ago, from \$1,657,298 to \$2,883,923. The analysis that follows focuses on the changes in cash balances.

<b>Changes in Cash Basis Net Assets of Business Type Activities</b> <b>(Expressed in thousands)</b>		
	<b>Year ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Receipts:		
Program receipts:		
Charges for service:		
Electric	\$ 3,171	3,188
General receipts:		
Unrestricted interest on investments	4	11
Loan proceeds	1,000	-
Other general receipts	10	1
Total receipts	4,185	3,200
Disbursements:		
Electric	2,958	2,792
Total disbursements	2,958	2,792
Change in cash basis net assets	1,227	408
Cash basis net assets beginning of year	1,657	1,249
Cash basis net assets end of year	\$ 2,884	1,657

Total business type activities receipts for the fiscal year were \$3.171 million compared to \$3.188 million last year. The cash balance increased by approximately \$1,227,000 from the prior year primarily due to \$1,000,000 in loan proceeds. Total disbursements for the fiscal year increased by 6.0% to a total of \$2.958 million.

The Montezuma Municipal Light and Power Plant has no governmental activities.



## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Electric Fund cash balance increased by \$1,226,625 to \$2,883,923, due primarily to loan proceeds.

## BUDGETARY HIGHLIGHTS

The Utility's budget was set at the beginning of the year with expected receipts at \$4,420,000 and disbursements at \$3,875,000. The budget was amended during the year, adding \$250,000 to disbursements due to the need for a new transformer.

## DEBT ADMINISTRATION

At June 30, 2010, the Utility had approximately \$5,000,000 in bonds and other long-term debt, compared to approximately \$4,260,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2010	2009
Revenue notes	\$ 5,000	4,260
Total	\$ 5,000	4,260

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Total revenues for 2010-2011 are expected to be about 3% lower than the previous year due mainly to the loss of commercial business in town and the overall economy. Total expenditures are expected to be about 3-4% lower than the previous year due mainly to less power purchased because of loss of commercial customers and less production time by our large industrial customers. However, we do believe the overall economy in Montezuma is starting to stabilize or even improve slightly. Utility collections are up slightly due to our involvement with the Offsets Program through the State of Iowa which allows us to collect on delinquent bills through the customer's tax refunds.

Utility rates are planned to remain steady, although a study is being planned to look at our current rate structure due to changes since the Utility entered the MISO market in September of 2009. A wind turbine project is proceeding since the Utility has secured a grant through the USDA and has borrowed funds for its construction. Cost estimates are being gathered to adapt the Utility's diesel generating engines so they will be compliant with new EPA air emission standards in 2013. Also, a major extension of the Utility's 13.8KV line from the north part of town out to Diamond Lake is planned for the fall of 2010.

## CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Don Hall, Chairman of the Trustees, 501 East Main St., Box 314, Montezuma, Iowa 50171.

## **Basic Financial Statements**

Exhibit A

**City of Montezuma, Iowa**  
**Municipal Light and Power Plant**  
**Statement of Activities and Net Assets - Cash Basis**  
**As of and for the year ended June 30, 2010**

	Net (Disbursements) Receipts and Changes in Cash Basis Net				
	Disbursements	Program Receipts		Assets	
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Business Type Activities	Total
<b>Functions/Programs:</b>					
Business type activities:					
Electric	\$ 2,958,554	3,171,113	-	212,559	212,559
Total business type activities	<u>\$ 2,958,554</u>	<u>3,171,113</u>	<u>-</u>	<u>212,559</u>	<u>212,559</u>
<b>General Receipts:</b>					
Unrestricted interest on investments				3,593	3,593
Loan proceeds				1,000,000	1,000,000
Miscellaneous				10,473	10,473
Total general receipts and transfers				<u>1,014,066</u>	<u>1,014,066</u>
Change in cash basis net assets				1,226,625	1,226,625
Cash basis net assets beginning of year				<u>1,657,298</u>	<u>1,657,298</u>
Cash basis net assets end of year				<u>\$ 2,883,923</u>	<u>2,883,923</u>
<b>Cash Basis Net Assets:</b>					
Restricted:					
Non-expendable:					
CMMPA required deposit				\$ 131,000	131,000
Expendable:					
Debt service/improvements				737,594	737,594
Unrestricted				<u>2,015,329</u>	<u>2,015,329</u>
<b>Total cash basis net assets</b>				<u>\$ 2,883,923</u>	<u>2,883,923</u>

See notes to financial statements.

Exhibit B

**City of Montezuma, Iowa**  
**Municipal Light and Power Plant**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Proprietary Funds**  
**As of and for the year ended June 30, 2010**

	Enterprise Funds
	Electric
Operating receipts:	
Charges for service	\$ 3,171,113
Total operating receipts	<u>3,171,113</u>
Operating disbursements:	
Business type activities	<u>2,478,012</u>
Total operating disbursements	<u>2,478,012</u>
Excess of operating receipts over operating disbursements	693,101
Non-operating receipts (disbursements):	
Rental income	10,473
Interest on investments	3,593
Loan proceeds	1,000,000
Miscellaneous	(6,524)
Debt service	(436,320)
Capital projects	(37,698)
Total non-operating disbursements	<u>533,524</u>
Excess of receipts over disbursements	<u>1,226,625</u>
Net change in cash balances	1,226,625
Cash balances beginning of year	<u>1,657,298</u>
Cash balances end of year	<u><u>\$ 2,883,923</u></u>
<b>Cash Basis Fund Balances</b>	
Reserved for debt service/improvements	\$ 737,594
CMMPA required deposit	131,000
Unreserved	<u>2,015,329</u>
Total cash basis fund balances	<u><u>\$ 2,883,923</u></u>

See notes to financial statements.

Exhibit C

City of Montezuma, Iowa

Municipal Light and Power Plant

Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances

To the Statement of Activities and Net Assets

Proprietary Funds

As of and for the year ended June 30, 2010

---

Total enterprise funds cash balances (Exhibit B)	\$ 2,883,923
Cash basis net assets of business type activities (Exhibit A)	\$ 2,883,923
Net change in cash balances (Exhibit A)	\$ 1,226,625
Change in cash balance of business type activities (Exhibit B)	\$ 1,226,625

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The City of Montezuma Municipal Light and Power Plant is a municipal utility operating in the City of Montezuma, Iowa. The Utility has a board appointed on a non-partisan basis. The Utility provides electric utility for the City's citizens.

A. Reporting Entity

For financial reporting purposes, the City of Montezuma Municipal Light and Power Plant has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility has no component units which meet the Governmental Accounting Standards Board criteria. The Utility is, however, a component unit of the City of Montezuma. The City of Montezuma Municipal Light and Power Plant is legally separate from the City of Montezuma but is financially accountable to the City. The Utility is governed by a three member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council. The Utility is includable as a component unit within the City of Montezuma reporting entity.

B. Basis of Presentation

Government-wide financial statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the Utility. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the Utility's non-fiduciary assets. Net assets are reported in the following categories/components:

*Non-expendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained by an outside party on behalf of the Utility.

*Expendable restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Utility reports the following major proprietary funds:

The Electric Fund accounts for the operation and maintenance of the Utility's electric utility system.

C. Measurement Focus and Basis of Accounting

The City of Montezuma Municipal Light and Power Plant maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Light and Power Plant are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

The only restricted net assets available for current expenses are those built up in the sinking funds which are meant to be used for debt payments. The reserve account and improvement account as described in Note (3) c) and d) are not available for current expenses.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The Utility's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$398,904 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk - The Utility's investment in the Iowa Public Agency Investment Trust is unrated.

(3) Notes Payable

Annual debt service requirements to maturity for revenue notes are as follows:

Year ending June 30,	Electric Revenue Notes, Series 2004		Electric Revenue Notes, Series A 2010		Electric Revenue Notes, Series B 2010		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 265,000	168,130	20,833	-	16,840	7,360	302,673	175,490
2012	275,000	159,120	50,000	-	44,191	13,890	369,191	173,010
2013	290,000	149,220	50,000	-	45,499	12,582	385,499	161,802
2014	295,000	138,345	50,000	-	46,920	11,161	391,920	149,506
2015	310,000	126,987	50,000	-	48,347	9,734	408,347	136,721
2016	320,000	114,588	50,000	-	49,817	8,264	419,817	122,852
2017	335,000	101,307	50,000	-	51,312	6,769	436,312	108,076
2018	350,000	87,070	50,000	-	52,893	5,188	452,893	92,258
2019	365,000	71,845	50,000	-	54,502	3,579	469,502	75,424
2020	380,000	55,603	50,000	-	56,160	1,921	486,160	57,524
2021	400,000	38,312	29,167	-	33,519	325	462,686	38,637
2022	415,000	19,713	-	-	-	-	415,000	19,713
Total	\$ 4,000,000	1,230,240	500,000	-	500,000	80,773	5,000,000	1,311,013

Revenue Notes

The Utility has pledged future electric customer receipts, net of specified operating disbursements, to repay \$5,150,000 in electric revenue notes issued in March, 2004. Proceeds from the notes provided financing for a joint ownership with Mid-American Energy and thirteen other municipalities to construct and operate a coal fired steam electric generating unit in Pottawattamie County, Iowa. The note is payable solely from electric customer net receipts and is payable through 2022.

The Utility has pledged future electric customer receipts, net of specific operating disbursements, to repay \$1,000,000 in electric revenue notes 2010 Series A and 2010 Series B issued June 3, 2010. Proceeds from the notes are to finance a wind turbine to generate local power. The note is payable solely from electric customer net receipts and is payable through 2021.

Annual principal and interest payments on the notes are expected to require less than 80 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$6,311,013. For the current year, principal and interest paid and total customer net receipts were \$436,320 and \$693,101, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- Sufficient monthly transfers shall be made to separate electric revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- An electric reserve account of \$439,275 shall be maintained within the Enterprise Funds until the 2004 note has been paid in full.
- An improvement account is set aside requiring \$2,500 on the first day of each month until \$150,000 is accumulated. The full \$150,000 improvement account has been set aside. This account is restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.



**(4) Pension and Retirement Benefits**

The City of Montezuma Municipal Light and Power Plant contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The Utility's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008, were \$16,793, \$18,798, and \$19,541, respectively, equal to the required contributions for each year.

**(5) Other Postemployment Benefits (OPEB)**

Plan Description – There is a medical/prescription drug plan which provides benefits for retirees and their spouses. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

There are five active employees in the Electric Utility's plan. The plan has no early retirees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums are \$377 for single coverage and \$944 for family coverage.

The same monthly premiums apply to retirees, which they are required to pay in full. For the year ended June 30, 2010, the Electric Utility contributed \$36,230 and plan members contributed \$0 to the plan.

**(6) Compensated Absences**

Utility employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City of Montezuma Municipal Light and Power Plant until used or paid. The Utility's approximate liability for earned vacation payments payable to employees at June 30, 2010 is \$17,923. This liability has been computed based on rates in effect at June 30, 2010.

**(7) Transactions Between the City and the Component Unit**

The following are significant transactions between the City of Montezuma and the Montezuma Light and Power Plant:

Transaction Description	From City to Municipal Utility	From Municipal Utility to City
Water Dept. Electric Use	\$ 24,433	-
Water Dept. Billing/Meter Reading	31,259	-
Gas Dept. Electric Use	10,175	-
Gas Dept. Billing/Meter Reading	23,375	-
General City Electric Use	54,978	-
Computer Maintenance	1,923	-
Power Plants - Taxes in lieu	-	(58,598)
Totals	<u>\$ 146,143</u>	<u>(58,598)</u>

The Municipal Utility's personnel do the meter reading and billing for the electric, water and gas departments. The City then reimburses the Municipal Utility for their share of those costs.

**(8) Related Party Transactions**

The Light and Power Plant had business transactions between the Plant and related parties of the Plant totaling \$6,772 during the year ended June 30, 2010.

**(9) Risk Management**

The City of Montezuma Municipal Light and Power Plant is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Economic Dependency**

During the year ended June 30, 2010, the City of Montezuma Municipal Light and Power Plant had one major supplier who provided 26.7% of the Utility's power. It also had one major customer, whose purchases totaled 29.9% of the charges for service revenue of the Utility.

**(11) Commitments and Contingencies**

On December 6, 2006, the City of Montezuma Municipal Light and Power Plant entered into a prorata investment in the Central Minnesota Municipal Power Agency's CAPX2020 Investment. The total commitment is for \$100,000. As of June 30, 2010, \$7,436 had been invested, \$2,436 in the current fiscal year.

### **Required Supplementary Information**

City of Montezuma, Iowa

Municipal Light and Power Plant

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)

Proprietary Funds

Required Supplementary Information

Year ended June 30, 2010

	Proprietary Funds Actual	Budgeted Amounts		Final to Net Variance
		Original	Final	
Receipts:				
Use of money and property	\$ 14,066	-	-	14,066
Loan proceeds	1,000,000	-	-	1,000,000
Charges for service	3,171,113	4,420,000	4,420,000	(1,248,887)
Total receipts	4,185,179	4,420,000	4,420,000	(234,821)
Disbursements:				
Business type activities	2,958,554	3,875,000	4,125,000	1,166,446
Total disbursements	2,958,554	3,875,000	4,125,000	1,166,446
Excess of receipts over disbursements	1,226,625	545,000	295,000	931,625
Balances beginning of year	1,657,298	(316,887)	(316,887)	1,974,185
Balances end of year	\$ 2,883,923	228,113	(21,887)	2,905,810

See accompanying independent auditor's report.

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control for the certified budget is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$250,000. The budget amendment is reflected in the final budgeted amounts.

### **Other Supplementary Information**

## Schedule 1

**City of Montezuma, Iowa**  
**Municipal Light and Power Plant**  
**Schedule of Indebtedness**  
**Year ended June 30, 2010**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue notes:									
Electric	3/1/2004	1.50-4.75%	5,150,000	\$ 4,260,000	-	260,000	4,000,000	176,320	56,043
Electric-2010 Series A	6/3/2010	0.00%	500,000	-	500,000	-	500,000	-	-
Electric-2010 Series B	6/3/2010	3%-variable	500,000	-	500,000	-	500,000	-	1,129
				<u>\$ 4,260,000</u>	<u>1,000,000</u>	<u>260,000</u>	<u>5,000,000</u>	<u>176,320</u>	<u>57,172</u>

See accompanying independent auditor's report.

## Schedule 2

**City of Montezuma, Iowa**  
**Municipal Light and Power Plant**  
**Revenue Note Maturities**  
**June 30, 2010**

Year Ending June 30,	Electric Revenue Note		Electric Revenue Note		Electric Revenue Note		
	Issued March 1, 2004		Issued June 3, 2010		Issued June 3, 2010		
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Total
2011	3.40%	\$ 265,000	0.00%	20,833	3%-variable	16,840	302,673
2012	3.60%	275,000	0.00%	50,000	3%-variable	44,191	369,191
2013	3.75%	290,000	0.00%	50,000	3%-variable	45,499	385,499
2014	3.85%	295,000	0.00%	50,000	3%-variable	46,920	391,920
2015	4.00%	310,000	0.00%	50,000	3%-variable	48,347	408,347
2016	4.15%	320,000	0.00%	50,000	3%-variable	49,817	419,817
2017	4.25%	335,000	0.00%	50,000	3%-variable	51,312	436,312
2018	4.35%	350,000	0.00%	50,000	3%-variable	52,893	452,893
2019	4.45%	365,000	0.00%	50,000	3%-variable	54,502	469,502
2020	4.55%	380,000	0.00%	50,000	3%-variable	56,160	486,160
2021	4.65%	400,000	0.00%	29,167	3%-variable	33,519	462,686
2022	4.75%	415,000	0.00%	-	3%-variable	-	415,000
		\$ 4,000,000		500,000		500,000	5,000,000

See accompanying independent auditor's report.





705 Main Street  
Pella, IA 50219  
641-628-3737

[www.vanmaanenpcpa.com](http://www.vanmaanenpcpa.com)

**Van Maanen, Sietstra & Meyer, PC**

CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

To the Board of Trustees  
City of Montezuma Municipal Light and Power Plant  
Montezuma, Iowa

We have audited the accompanying financial statements of the business type activities and each major fund of the City of Montezuma Municipal Light and Power Plant as of and for the year ended June 30, 2010, which collectively comprise the Utility's basic financial statements listed in the table of contents, and have issued our report thereon dated August 18, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered City of Montezuma Light & Power's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Montezuma Light & Power's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Montezuma Light & Power's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Montezuma Light & Power's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as item (A) to be a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Montezuma Municipal Light and Power Plant's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Montezuma Municipal Light and Power Plant's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit the City of Montezuma Municipal Light and Power Plant's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Montezuma Municipal Light and Power Plant and other parties to whom the Utility may report and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Montezuma Municipal Light and Power Plant during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Van Maanen, Sietstra & Meyer, PC*

Van Maanen, Sietstra & Meyer, PC  
Certified Public Accountants

August 18, 2010

**Findings Related to the Financial Statements:**

**Internal Control Deficiencies:**

- (A) Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Due to cross-training for versatility, personnel have access to functions which, from a segregation of duties standpoint, are incompatible.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances. The Utility should segregate duties to the extent possible with existing personnel and continue to utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - We will consider this.

Conclusion - Response acknowledged.

**Instances of Non-compliance:**

No matters were noted.

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget – Disbursements for the year ended June 30, 2010 did not exceed the certified budget amounts.
- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No disbursements of City of Montezuma Municipal Light and Power Plant money for travel expenses of spouses of Utility officials or employees were noted.
- (4) Business Transactions - Business transactions between the Utility and Utility officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jim Hicks, Mayor, Owner of Jim's Heating and Air Conditioning	AC/Boiler Repairs	\$ 254
Kyler Kudart, Plant employee's son, Kyler's Mowing Service	Mowing	1,470
Doug Ver Meer, Trustee, Owner of Vannoy Chevrolet	Repairs	683
Mike Fahlenkamp, father-in-law of Shanel Fahlenkamp, Trustee Secretary	On call capacity generation	3,000
	Repairs	1,365
		<u>\$ 4,365</u>

In accordance with Chapter 362.5(10) of the Code of Iowa, transactions with the Mayor, the employee's son and Trustee do not appear to represent conflicts of interest since total transactions with the individuals were less than \$1,500 during the fiscal year. Transactions with the father-in-law of the Trustee Secretary appear to be a conflict of interest. Legal council should be contacted regarding this item.

Recommendation – The Utility should apply for bids, or receive quotes for purchases before buying from related parties in order to substantiate that these transactions are done in the public's best interest, and in an arm's length transaction. Legal council should be contacted.

Response – We will comply with Chapter 362.5(10) of the Code of Iowa in the future. We will also contact legal council.

Conclusion – Response accepted.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (6) Trustee Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- (7) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
- (8) Revenue Note - The City of Montezuma Municipal Light and Power Plant has established proper accounts as required by the utility revenue note resolution. No instances of non-compliance with the revenue bond resolutions were noted.